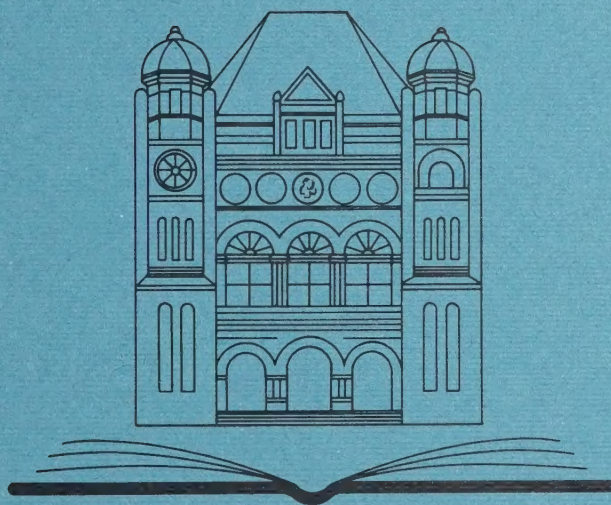


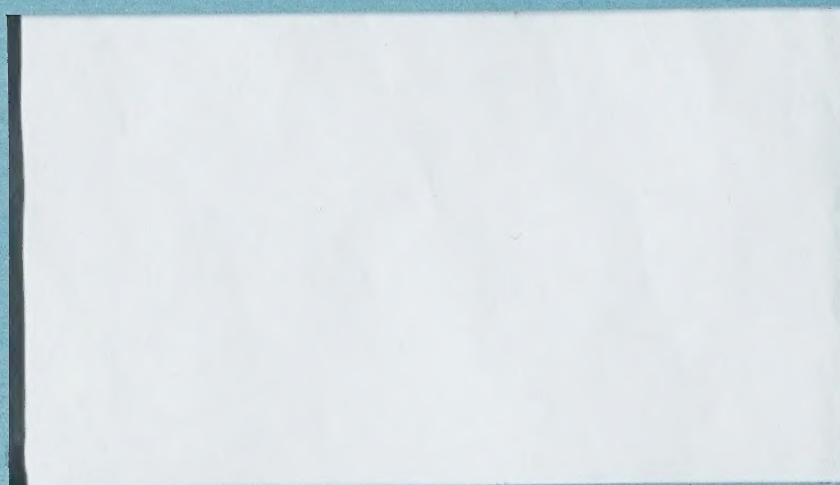
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**BACKGROUND INFORMATION ON
PROPERTY ASSESSMENT**

Current Issue Paper 138



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PROPERTY ASSESSMENT IN ONTARIO

Property taxes have a direct impact upon homeowners, tenants and businesses and play a major role in financing municipal government and education. Not surprisingly, Ontario's property tax system has long been an issue of considerable public and political concern. In late 1992 a plan to update property assessments in Metropolitan Toronto, the primary urban centre in the province, was put forward in the Ontario Legislature. Following extensive debate it was eventually announced on December 8, 1992, that Bill 94, the *Metropolitan Toronto Reassessment Statute Law Amendment Act*, would be delayed.

This paper describes the major legislative and administrative bases of Ontario's current property tax system and municipal assessment procedures. The proposed reassessment plan for Metropolitan Toronto and key issues associated with Bill 94 are also reviewed.

BASIS OF ONTARIO'S PROPERTY ASSESSMENT SYSTEM

The structure of Ontario's property tax system is established under the *Assessment Act*. Section 19 specifies that "land shall be assessed at its market value" and that the "market value of land assessed is the amount that the land might be expected to realize if sold in the open market by a willing seller to a willing buyer."

Reassessment is the process of updating the assessed values of all properties in a municipality to a particular market-value base year.¹

During the recent debate on reassessment in Metropolitan Toronto, it was suggested that the basis of residential assessment should be changed from market-value to unit-value assessment; that is, to assessment based on the dimensions of the house and lot.² This would require legislative amendments and would have substantial administrative consequences. The current market-value based property assessment system has been long-established across Ontario's 830 municipalities and 52 independent school boards, and major change would be a massive undertaking.³

To implement a revised assessment system for residential property in Metropolitan Toronto only could provoke other municipalities to complain of inequitable treatment. On the other hand it has been claimed that Toronto, as Ontario's principal business centre, should be given special consideration.

The *Assessment Act* provides for two basic methods of municipal reassessment. First of all, section 58(3) (formerly section 63(3)) provides for the "equalization of assessment within a municipality," also known as "reassessment by property class."⁴ A municipal Council (city, town, village or township) resolution is required for the Ministry of Revenue to proceed with reassessment. All properties are assigned to a class, such as residential, commercial or industrial. Market values are established for individual properties within a class. Factors are then established setting the relationship between assessment and market value for each class of property. The factor "multiplied by the market value, produces the assessed value of the property."⁵

Mill rates, which specify the amount of property tax to be raised for each \$1000 of assessment, are then applied to the assessed values to determine the amount of property tax to be levied against each property. Mill rates are set to meet the revenue requirements of local municipalities, school boards, and, where "upper tier" municipal structures exist, the revenue requirements of regional, metropolitan and county governments. Property taxes are collected by the local area municipality, and the school board and "upper tier" portions, where relevant, are remitted to the appropriate authorities.⁶ The total tax revenue raised due to reassessment in a municipality does not change.⁷ This is the basic assessment system that would apply under the reassessment plan proposed for Metropolitan Toronto. In addition, however, it would feature a unique system of caps or limits on tax decreases and increases, and a graduated phase-in of tax increases and decreases.

Under the other method of reassessment, section 63 (formerly section 70) of the *Assessment Act* allows for assessment within a municipality at full market value. As a matter of policy the Ministry of Revenue acts only in response to a supporting Council resolution.⁸ Unlike an equalized reassessment system, tax shifts may occur between property classes or types as dictated by market conditions. Mill rates are

then applied to market values; without using factors or percentages of market value. Under this system "the assessed value of all properties in a municipality is the same as their estimated market value."⁹ In most cases the mill rates have been reduced to compensate for the increase in assessments to full market values and to ensure that total tax revenue does not change.¹⁰ This has largely been applied in smaller rural municipalities with limited commercial/industrial tax bases.¹¹

The following provisions govern reassessment in county or regional municipalities; in both cases the municipality can opt for either equalized or market value assessment. The *Municipal Act* (sections 371(2) and (4)) makes provision for a "county wide assessment update" by the Minister of Revenue. A supporting resolution of "the council of the county and the councils of a majority of the local municipalities in the county" is then required, and once such a county-wide update takes place the legislation provides for a mandatory updating of assessments every four years by the Ministry of Revenue (section 371(9)).

Bill 165, *the Municipal Statute Law Amendment Act, 1992*, enacted in June, 1992, sets up a revised procedure for reassessment within regional municipalities. Under the Bill's amendments to the *Regional Municipalities Act* (sections 135.3 (1), (6) and (7)), a "region-wide assessment update" would be conducted by the Minister of Revenue in response to a resolution of Regional Council. With region-wide reassessment all properties within a regional municipality would be reassessed "either at a percentage of market value by property class or at full market value" as provided for in the *Assessment Act*.¹² Assessments would then be updated routinely every four years by the Ministry of Revenue.

Ministry of Revenue figures for February 1, 1993, indicate that 87% of municipalities had instituted local or regional reassessment under the basic provisions of the *Assessment Act*. Of this total, 370 municipalities had put in place a local reassessment by property class, 140 had a local reassessment at full market value, 191 had region/county-wide reassessment by property class, and 36 had implemented region/county-wide reassessment at full market value.¹³

CONSIDERATION OF BILL 94 AND METROPOLITAN TORONTO'S PROPOSED INTERIM REASSESSMENT PLAN

Overview of Bill 94

Alone among Ontario municipalities, Metropolitan Toronto requires provincial legislation to implement Metro-wide reassessment. In putting forward such legislation, however, the Ontario government was responding to a supporting resolution by the Council of the Municipality of Metropolitan Toronto. In addition, the capping and phase-in features applying to tax increases and decreases also require special legislative treatment. The importance and volatility of Metro's real estate market, as well as the fact that the assessment system in Metro was last updated in 1954 using 1940 values, adds particular complexity to reassessment in Metro.¹⁴

Bill 94 proposed amendments to the *Municipality of Metropolitan Toronto Act* and to the *Education Act* and repeal of various sections of the *City of Toronto Act* and the *Metropolitan Toronto Separate School Board Act*. It provided for "the implementation of the interim reassessment plan of The Municipality of Metropolitan Toronto" to be in effect at least for the period of 1993 to 1997.¹⁵ This Bill would also have amended the *Rent Control Act* to allow for revised procedures to reduce the maximum rent recorded in the rent registry for multi-residential properties in response to a reduction in property taxes levied due to reassessment.

Even if this legislation had been passed, the reassessment plan was temporary; the Bill still required that Metro Toronto "before the 1st day of January, 1997 . . . prepare, adopt and forward to the Minister of Municipal Affairs a reassessment plan for the Metropolitan Area for the years 1998 to 2002" (Section 241.15). Thus the Ontario government would continue to exercise a review function with respect to the future reassessment plan. If the deadlines for the post-1997 reassessment plan were not met, the Ontario government would have had the responsibility to introduce a revised reassessment plan.¹⁶ The interim plan would remain in effect until the province approved a new plan.¹⁷

Metro's Interim Reassessment Plan

The proposed interim reassessment plan to be put into effect with Bill 94 was considered and approved by Metro Council on October 29, 1992.¹⁸ This plan would have updated property assessments and taxes on a phased basis from January 1, 1993, to December 31, 1997, employing 1988 market values as the base year. A key feature of this plan was to cap property tax increases for residential, commercial and industrial properties.¹⁹ Tax decreases for eligible residential, commercial and industrial properties were also to be phased in and "a portion of every tax decrease is withheld [or limited] to finance caps on tax increases".²⁰ Other classes of property, including vacant (undeveloped) land, railway rights-of-way, utility corridors, pipelines and properties making grants in-lieu-of-taxes (i.e., those owned by the provincial and federal governments), would receive full tax increases and decreases.²¹

It was estimated that 56% of property taxpayers across Metro would receive a tax decrease and 44% would experience a tax increase.²² Among the six area municipalities of the Metro federation a majority of property taxpayers in five municipalities would have received tax decreases: Scarborough (77%), Etobicoke (72%), North York (63%), East York (59%), and City of York (55%). Within the City of Toronto 66% of property taxpayers would have seen their taxes go up with the reassessment plan.²³ There was also substantial local variation in the pattern of decreases and increases. In the northwestern Metro ward of Etobicoke Rexdale-Thistletown 97% of property units would experience a decrease. In the west-central Metro ward of Toronto Trinity-Niagara 92% of property units would experience an increase.²⁴

There would also be tax shifts among the six area municipalities. It was estimated that the net impact of this phased reassessment would result in an increase in taxes of \$46.4 million for the City of Toronto. The other five area municipalities within Metro would experience a net reduction in taxes: North York (\$19.1 million), Etobicoke (\$20.0 million), Scarborough (\$7.1 million), City of York (\$1.4 million), and East York (\$1.4 million).²⁵ At the October 28 and 29, 1992, Metro Council

meeting that approved the reassessment plan, all nine City of Toronto representatives, including Toronto's Mayor June Rowlands, voted against this plan. Overall, the reassessment plan was approved by a vote of 21 to 13.²⁶ The impact of reassessment on the City of Toronto was also an issue during the Legislative Committee hearings on Bill 94.

Highlights of Legislative Debate and Committee Hearings into Bill 94

Bill 94, the *Metropolitan Toronto Reassessment Statute Law Amendment Act, 1992*, received first reading in the Ontario Legislature on November 18, 1992. Second reading debate began on November 24, 1992, and, following a vote on second reading on December 1, 1992, the Bill was referred to the Standing Committee on Social Development.²⁷ The Committee hearings began on the afternoon of November 30, 1992, and continued over eight days, including weekend and evening sittings, until December 7, 1992, during which time the Committee heard from some 175 groups and individuals.²⁸

Some of the major issues raised during these public hearings concerned the wisdom of introducing a reassessment plan based upon 1988 market values, a time of high property values in Metropolitan Toronto. Questions were also raised with regard to the impact of significant property tax adjustments in the middle of a recession and the effect of property tax increases upon retail businesses and individual properties in older established neighbourhoods. On the other hand, suburban representatives maintained that property tax reform was long overdue and that many ratepayers in suburban neighbourhoods had been overpaying for years. Specific concerns were also raised with respect to the potentially adverse impact of the reassessment plan on railway lands and corridors, Ontario Hydro rights-of-way, vacant undeveloped lands and the sale of residential properties, since full market value would apply to such properties. Methods of property taxation other than a market-value based system were also proposed for reform of Ontario's property tax system;²⁹ for example, a unit-value based system, which would reflect the size of the building and the lot was suggested.

On December 8, 1992, the Minister of Municipal Affairs, David Cooke, announced in the Legislature that "we will not proceed this sitting with Bill 94" and "we are sending the plan back to Metro for revision and resolution of the problems ...".³⁰ He expressed concern "that the financial consequences of Metro's interim plan would not be confined to Metro Toronto alone," and that the changes could be detrimental to the provincial economy as a whole.³¹ The Minister also expressed specific concern that, when sold, residential assessments would move to full market value, and he noted the impact of full market-value assessment on railway lands, hydro rights-of-way and vacant lands. Questions were raised with respect to features of the reassessment plan that could affect the economy and employment, and could substantially increase costs to the railways (\$40 million) GO Transit and Ontario Hydro (\$60 million).³²

Press reports also made reference to "\$97.4 million — the additional money that Metro stands to collect by full market value on land owned by [provincial] government agencies, but which doesn't appear in its [Metro's] tax plan calculations."³³ These financial impacts, as emphasized in the Minister's statement, could extend beyond Metro and affect taxpayers in the Greater Toronto Area and across Ontario. Press articles also made reference to the role of "the core of influential [City of] Toronto ministers — Frances Lankin, Tony Silipo, Marilyn Churley and Elaine Ziemba" in influencing the government in its decision to delay Metro's reassessment plan.³⁴

Toronto Mayor June Rowlands was in favour of provincial action to delay reassessment;³⁵ local politicians in Scarborough, North York and Etobicoke expressed opposition. Political response from the City of York was neutral, while the former Mayor of East York, David Johnson, expressed the opinion that market-value assessment is a "dead issue".³⁶

Possible Future Developments

Metro staff are reviewing the reassessment plan in light of the position and concerns of the Minister of Municipal Affairs.³⁷ If the reassessment plan is revised to in some way limit increases on vacant land, utility corridors, railway lands and provincial and federal property, and to fund these caps by limiting tax reductions to eligible property owners, the amount of individual reductions granted through property tax reform in Metro will be smaller. Under a broader "self-financed" system of "caps on increases" the size of tax reductions, which mainly went to suburban property owners under the initial plan, would be reduced further. This in turn could affect the pattern of political support before Metro Council for Metro-wide reassessment.

A revised proposal could be presented to Metro Council during the spring of 1993, and, if there are no delays or political opposition, a revised plan could then be resubmitted to the Ontario government.³⁸ In the words of one Queen's Park columnist, however: "It's not clear that Metro politicians can reach another compromise."³⁹ Referring to a technical report prepared by a senior Metro official another press article stated that "if the [reassessment] plan were changed to address all the provincial government's concerns, it would no longer meet its goal of tax equity." Metro has also stated that to address the provincial concerns with respect to the reassessment plan "would take away 71% of the tax reductions from 300,000 single family residents and 176,947 apartment units."⁴⁰ Consideration of reassessment could also be affected by the schedule for municipal elections in November 1994.

Meetings have been proposed between Metro representatives and the new Minister of Municipal Affairs, Ed Philip, to discuss these matters further.⁴¹ In a press article of March 5, 1993, Mr. Philip reiterated that the "concerns raised [with reference to Metro's reassessment plan] by the public, business, transportation and utility groups are equally as valid today as they were in December [1992]" and "we expect Metro to deal with these issues if the plan [i.e., Bill 94] is to be returned to the Legislature for final reading."⁴²

In the aftermath of the delay of Metro's reassessment plan, Metro Chairman Alan Tonks mentioned the possibility of conducting reassessment on an area-municipal rather than Metro-wide basis.⁴³ This option would not require Metro, or the six area municipalities, to obtain specific provincial enabling legislation, but could be accommodated under the general features of the *Assessment Act* (section 58) with supporting local municipal council resolutions.⁴⁴ Such an option would eliminate tax shifts between municipalities within Metro.

CONCLUDING REMARKS

This paper has described the major lines of debate on reassessment in Metropolitan Toronto. Reassessment has also occurred or been discussed in most other municipalities across Ontario. For example, during 1992 the Regional Municipality of Ottawa-Carleton opted to put into effect a region-wide reassessment for the 1993 property taxation year using 1988 market values.⁴⁵ Previously the eleven area municipalities were assessed on an individual basis and for different market value years ranging from 1974 to 1984.⁴⁶ In 1992 the Regional Municipality of Waterloo underwent a statutory update to its assessment on a regional basis using 1988 as the base year for property values.⁴⁷ However in October 1992, the Regional Municipality of Hamilton-Wentworth decided not to proceed with region-wide reassessment.⁴⁸ In September 1992 the Regional Municipality of Niagara also rejected a proposal "to implement Region-wide reassessment under Section 58 of the Assessment Act in 1992 for 1993 [property] taxation."⁴⁹ In December 1992 Halton Region appointed a Citizen's Committee and deferred implementation of region-wide reassessment until 1994.⁵⁰

Since reassessment has a direct financial impact upon individual taxpayers, property owners and tenants, business establishments, and municipal and school board revenues, it will no doubt continue to be a matter of heated public and political debate.

FOOTNOTES

¹ Letter from Michael O'Dowd to Jerry Richmond, 26 November 1992, Assessment Policies and Priorities Branch, Ministry of Revenue, Oshawa.

² Henry Hess, "Homeowners put through the mill," *Globe and Mail*, 9 February 1993.

³ Telephone interview with John Meyer, Database Administrator, Technical Section, Information Management Branch, Ministry of Municipal Affairs, 19 February 1993, at (416) 585-7230. Of the total of 830 municipalities in Ontario, 791 (city, borough, town, village, township) are lower-tier and the remaining 49 are upper-tier (Metropolitan, regional municipality, county and district municipality). The figure on the number of independent school boards was obtained from faxed material received on 15 February 1993 from Ruth Cameron, Senior Manager, Assessment Legislation, Assessment Policies and Priorities Branch, Ministry of Revenue, Oshawa at (416) 433-5748.

⁴ Telephone interview with Ms. Cameron.

⁵ O'Dowd letter to Richmond.

⁶ Telephone interview with Bill Robson, Senior Policy Advisor, Taxation Policy, Municipal Finance Branch, Ministry of Municipal Affairs, Toronto, 16 February 1993, at (416) 585-6307.

⁷ Telephone interview with Michael O'Dowd, Director, Assessment Policies and Priorities Branch, Ministry of Revenue, Oshawa, 25 January 1993, at (416) 433-5755.

⁸ Telephone interview with Ms. Cameron.

⁹ O'Dowd letter to Richmond.

¹⁰ Ibid.

¹¹ The trends with respect to full market value reassessment were discussed with Mr. O'Dowd.

¹² O'Dowd letter to Richmond, p. 2.

¹³ Tabular figures compiled by the Assessment Policies and Priorities Branch, Ministry of Revenue, Oshawa.

¹⁴ Telephone interview with Mr. Robson.

¹⁵ Bill 94, *Metropolitan Toronto Reassessment Statute Law Amendment Act, Explanatory Notes*.

¹⁶ Telephone interview with Mr. Robson.

¹⁷ Ontario, Ministry of Municipal Affairs, *Legislation to Enable Metro to Implement its Reassessment Plan - Bill 94*, Distributed to the Ontario Legislature's Standing Committee on Social Development on 30 November 1992.

¹⁸ Municipality of Metropolitan Toronto, Council, Clause embodied in Report No. 33 of The Management Committee adopted, as amended, by the Council of The Municipality of Metropolitan Toronto at its meeting held on 28 and 29 October 1992, pp. 796-800.

¹⁹ Municipality of Metropolitan Toronto, Chief Administrative Officer's Department, *Interim Metropolitan Toronto Reassessment Plan: Approved by Metro Council, 29 October 1992*, "Revised 20 November 1992.

²⁰ Ibid.

²¹ Municipality of Metropolitan Toronto, "Highlights of the [Reassessment] Plan", 1992 and "Minutes of Council of the Municipality of Metropolitan Toronto", 28 and 29 October 1992, p. 800.

²² "Where your property taxes were headed," *Toronto Star*, 9 December 1992.

²³ Derek Ferguson, "Province kills Metro tax reform", *Toronto Star*, 9 December 1992.

²⁴ Ibid.

²⁵ Municipality of Metropolitan Toronto, Council, *Interim Reassessment Plan* "Clause," p. 62. As discussed with Ed Zamparo, Senior Corporate Planner, Corporate Planning Division, Chief Administrative Officer's Department, Municipality of Metropolitan Toronto on 28 January 1993 at (416) 392-8641 these figures were described as "best estimates" of the intermunicipal impact of the reassessment plan.

²⁶ Municipality of Metropolitan Toronto, Metropolitan Clerk's Department, *Minutes of Council of the Municipality of Metropolitan Toronto*, 28 and 29 October 1992, pp. 796-800.

²⁷ Ontario, Legislative Assembly, *Hansard: Official Report of Debates*, 35th Parliament, 2nd Session (24 November 1992): 3451; and (1 December 1992): 3665-66.

²⁸ Ontario, Legislative Assembly, Standing Committee on Social Development, *Hansard: Official Report of Debates*, 35th Parliament, 2nd Session (30 November 1992; 1 December 1992; 7 December 1992).

²⁹ Alison Drummond and Jerry Richmond, *Summary of Recommendations: Bill 94 Metropolitan Toronto Statute Law Amendment Act, 1992*, prepared for the Standing Committee on Social Development (Toronto: Legislative Research Service, 1992).

³⁰ Ontario, Ministry of Municipal Affairs, "Statement in the legislature by David Cooke, Minister of Municipal Affairs," 8 December 1992.

³¹ Ibid.

³² Ibid.

³³ Henry Hess, "Toronto had byte behind MVA bark," *Globe and Mail*, 11 December 1992. This figure was also discussed in David Lewis Stein, "Satisfying Cooke can save tax plan," *Toronto Star*, 9 December 1992.

³⁴ Henry Hess, "Province uncomfortable with city's tax reform plan," *Globe and Mail*, 1 December 1992, p. A11. This matter was also discussed in William Walker, "Toronto MPPs killed Metro's tax plan," *Toronto Star*, 10 December 1992.

³⁵ Susan Reid, "Rowlands claims victory in tax war," *Toronto Star*, 9 December 1992.

³⁶ "Metro mayors decry 'reprehensible' NDP decision," *Toronto Star*, 9 December 1992.

³⁷ "\$385,000 earmarked for new MVA bid," *Toronto Star*, 14 January 1993.

³⁸ The likely status of the reassessment plan was discussed with Ed Zamparo.

³⁹ Thomas Walkom, "Market value plan judged too costly for Hydro, NDP," *Toronto Star*, 9 December 1992.

⁴⁰ Royson James, "Councillors say they won't alter MVA plan," *Toronto Star*, 24 February 1993.

⁴¹ Henry Hess, "MVA beyond repair, report says," *Globe and Mail*, 19 February 1993.

⁴² Royson James, "Fix plan for MVA, Metro told," *Toronto Star*, 5 March 1993.

⁴³ Dick Chapman, "Big split for MVA?," *Toronto Sun*, 3 December 1992.

⁴⁴ Ibid.

⁴⁵ Telephone interview with Jack Laflamme, Evaluation Manager, Regional Assessment Office, Region No. 3 Ottawa-Carleton, 17 February 1993, at (613) 526-3890. It was indicated that this reassessment was approved by Regional Council on 14 October 1992.

⁴⁶ Ontario, Ministry of Revenue, *Reassessed Municipalities* (Toronto: The Ministry, 1991), p. 6.

⁴⁷ Telephone interview with the Assessment Policies and Priorities Branch, Ministry of Revenue, Oshawa, 22 February 1993, at (416) 433-5763.

⁴⁸ Telephone interview with Mike Rollo, Deputy Clerk, Regional Municipality of Hamilton-Wentworth, Hamilton, 10 February 1993, at (416) 546-4111. Excerpts from the *Council Minutes* of the Regional Municipality of Hamilton-Wentworth for 19 October 1992 on market value assessment were also reviewed.

⁴⁹ Regional Municipality of Niagara, *Proceedings of Council*, Report 24-92, 24 September 1992, p. CL 294. This matter was also discussed during a telephone

interview with Pam Gilroy, Assistant to the Acting Regional Clerk, Regional Municipality of Niagara, St. Catharines, 10 February 1993 at (416) 685-1571, Ext. 218.

⁵⁰ Regional Municipality of Halton, *Media Release*, 3 December 1992. This matter was also discussed during a telephone interview with Cathy Deschamps, Financial Analyst, Finance Department, Regional Municipality of Halton, Oakville, 10 February 1993 at (416) 825-6000, Ext. 7053.

The debate and delay of reassessment in Halton and Hamilton-Wentworth Regions was also discussed by Colin Vaughan, "Metro's neighbours steer clear of MVA," *Globe and Mail*, 21 December 1992.



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